MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

27 October 2017
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 8 pages with **FOUR (4)** Questions only. (including Front Page and Consolidated Financial Statements)

2. Answer **ALL** questions.

3. Write your answers in the Answer Booklet provided.

QUESTION 1 & 2

NEXT Plc (Public limited corporation). is a UK based retailer offering exciting, beautiful designed, excellent quality clothing, footwear, accessories and home products. The consolidated financial statements are attached and the following Chairman's statements are extracted from the annual report of NEXT Plc for the year ending 24th January 2015.

CHAIRMAN'S STATEMENT

- The year to January 2015 was a good year for NEXT. Company proposed to increase total full year ordinary dividend by 16% to 150p. This is the sixth consecutive year that ordinary dividend have grown by 15% or more.
- Sales for NEXT Directory, our online and catalogue business, increased by 12% and NEXT Retail by 5%. Total Group sales rose 7% and reached £4 billion for the first time.
- Returning cash to shareholders has not been at the expense of investment in the business nor has it increased our net debt, which ended the year at the same level as last year. NEXT Retail continues to invest in new, often larger, stores. NEXT Directory continues to increase its active customer based, it now delivers to 71 countries and has a growing business in the sale of third party branded products through the LABEL. We are also increasing our warehouse capacity and improving our distribution capabilities.

The Consolidated Financial Statements are attached.

QUESTION 1

a) Based on the attached **consolidated financial statement** and above **Chairman Statement,** evaluate the changes in revenue, operating profit, profit after taxation and earnings per share for the financial period 2014-2015. **(10 marks)**

b) Based on the attached **consolidated financial statement** and above **Chairman Statement,** calculates THREE liquidity ratios (current ratio, quick ratio and operating cash flow ratio) for year 2014 and 2015, and discuss your results.

(15 marks)

(Total: 25 marks)

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QUESTION 2

a) Analyze how the discussion in **Chairman's statement** supporting the situation of liquidity and profitability position faced by Next Plc. **(15 marks)**

b) Following is the outlook of Next Plc.

- ECONOMIC OUTLOOK

The economic outlook for the UK consumer looks benign. Low price inflation, an end to real wage decline, healthy credit markets and strong employment all paint a more positive picture than in recent years.

- SALES OUTLOOK FOR NEXT

Although the consumer economy looks benign, we remain very cautious in our sales budgets. Whilst we are happy with most of our current product ranges, we recognize that some collections are not as strong as they were at this point last year. In addition, during the Spring and Summer seasons, we face very tough comparative numbers from last year, when sales were assisted by unusually warm weather. There is a potential upside in the second half as the comparative performance last year weakens, particularly in the third quarter. We are currently budgeting for full price sales growth for the full year to be up between +1.5% and +5.5%, with the first half expected to be up 0% to 3%, and the second half up 3.5% to 7.5%.

- CONCLUSION – A TOUGHER YEAR BUT PLENTY TO DO

Whatever the sales environment in the current year, the Company has plenty of opportunities to lay foundations for future growth. Of these, the most important are: further improvement to our buying techniques, customer service, delivery capabilities, growing our store portfolio, initiating overseas fulfilment operations, and growing our third party branded business through LABEL.

Required:

Assess each of the statements above and comment on their implications for the core financial statements and hence their significance to stock valuation. **(10 marks)**

(Total: 25 marks)

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QUESTION 3

You are given the following information for Wall Mart Company. As of year 1, the company's book value is RM80,000 and its cost of capital is 15%.

	Year 1	Year 2	Year 3	Year 4	Year 5
	RM	RM	RM	RM	RM
Sales	135,000	130,000	130,000	120,000	160,329
Operating expenses	100,000	90,000	85,000	70,000	119,900
Depreciation	10,000	11,300	12,770	14,430	14,430
Net income	25,000	28,700	32,230	35,570	25,998
Dividends	8,000	4,355	3,120	12,700	10,820
Expected book value (Beginning)	80,000	97,000	121,345	150,455	173,325
ROCE	31.3%	29.6%	26.6%	23.6%	15%

Dividends for year 6 and beyond are expected to remain at year 5 level.

a) Compute Company's abnormal earnings for year 1 to year 5 **(7.5 marks)**
b) Use an accounting based valuation model to estimate the value of Company's equity on January 1st of year 1, year 2, year 3, year 4 and year 5 **(7.5 marks)**
c) Use the Price-to-Earnings (PE) Ratio formula to determine the Price-to-Earnings (PE) Ratio on January 1st of year 2, year 3, year 4 and year 5 **(10 marks)**

(Total: 25 marks)

QUESTION 4

a) Jaya Grocer Group reported net income of RM 300,000 for the year ended 2016. The following is the group's additional items. Students are required to prepare the Statement of Comprehensive Income.

i) The group purchased 10,000 KK Company share at RM10 per share at the middle of 2016. The investment is treated as "available for sales". The value of the shares is RM8 at the end of 2016.

ii) The group purchased 1,000 Family Mart Company bond at RM100 per bond at the beginning of 2016. The investment is treated as "hold to maturity". The value of the bond is RM112 at the end of 2016. The maturity date of the bond is year 2020.

iii) The group purchased 1,000 Econ Save Company bond at RM100 per bond at the beginning of 2016. The investment is treated as "available for sales". The value of the bond is RM90 at the end of 2016. The maturity date of the bond is year 2020.

(12 marks)

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b) Compute the following transaction AND analyse its impact on company net profit.

i) Company changed the lifespan of fixed asset with value of RM10,000 from 10 years to 5 years for the calculation of yearly depreciation expense

ii) Company increase the provision for bad debt of account receivable amounting RM100,000 from 2% to 10% for the calculation of yearly provision for bad debt expense

iii) Company provide contingent liabilities of RM150,000 for the warranty issue

(13 marks)

(Total: 25 marks)

End of page

Annual Report and Accounts

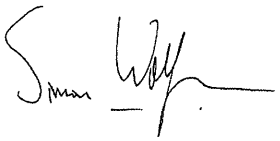
JANUARY 2015

CONSOLIDATED BALANCE SHEET

As at 24 January

	Notes	2015 £m	2014 £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant & equipment	10	**503.3**	509.2
Intangible assets	11	**44.0**	44.4
Interests in associates and other investments	12	**2.1**	7.9
Defined benefit pension surplus	21	**37.9**	70.3
Other financial assets	15	**65.7**	17.7
Deferred tax assets	7	**13.3**	27.0
		666.3	676.5
Current assets			
Inventories		**416.8**	385.6
Assets under construction	13	**12.7**	-
Customer and other receivables	14	**844.3**	808.0
Other financial assets	15	**66.7**	1.2
Cash and short term deposits	16	**275.5**	273.3
		1,616.0	1,468.1
Total assets		**2,282.3**	2,144.6
Current liabilities			
Bank loans and overdrafts	17	**(2.8)**	(2.6)
Trade payables and other liabilities	18	**(636.5)**	(594.0)
Dividends payable	8	**(73.9)**	(74.4)
Other financial liabilities	19	**(109.4)**	(83.8)
Current tax liabilities		**(64.0)**	(79.7)
		(886.6)	(834.5)
Non-current liabilities			
Corporate bonds	20	**(838.2)**	(800.8)
Provisions	22	**(9.4)**	(8.5)
Other financial liabilities	19	**(11.8)**	(0.9)
Other liabilities	18	**(214.4)**	(213.7)
		(1,073.8)	(1,023.9)
Total liabilities		**(1,960.4)**	(1,858.4)
NET ASSETS		**321.9**	286.2
TOTAL EQUITY		**321.9**	286.2

Approved by the Board on 19 March 2015



Lord Wolfson of Aspley Guise
Chief Executive

David Keens
Group Finance Director

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 24 January

	2015 £m	2014 £m
Cash flows from operating activities		
Operating profit	812.1	722.8
Depreciation, impairment and loss on disposal of property, plant & equipment	114.3	132.9
Amortisation and impairment of intangible assets	0.5	0.4
Share option charge less amounts settled in cash	9.6	13.4
Dividends from associates less share of profits	0.9	(0.7)
Exchange movement	(15.6)	9.3
Increase in inventories and assets under construction	(43.9)	(53.8)
Increase in customer and other receivables	(28.9)	(90.9)
Increase in trade and other payables	49.1	50.7
Net pension contributions less income statement charge	(2.3)	(17.3)
Cash generated from operations	895.8	766.8
Corporation taxes paid	(152.6)	(152.0)
Net cash from operating activities	743.2	614.8
Cash flows from investing activities		
Additions to property, plant & equipment	(110.2)	(105.3)
Movement in capital accruals	(3.3)	2.4
Payments to acquire property, plant & equipment	(113.5)	(102.9)
Proceeds from sale of property, plant & equipment	1.9	0.4
Payment of deferred consideration	(1.4)	(0.1)
Proceeds from sale of investment in associate (Note 6)	7.0	-
Net cash from investing activities	(106.0)	(102.6)
Cash flows from financing activities		
Repurchase of own shares	(137.9)	(295.8)
Purchase of shares by ESOT	(79.8)	(97.5)
Disposal of shares by ESOT	45.0	42.9
Bonds issued	-	250.0
Bonds redeemed	-	(85.5)
Interest paid	(29.7)	(21.5)
Interest received	0.9	0.5
Payment of finance lease liabilities	(0.2)	(0.1)
Dividends paid (Note 8)	(434.4)	(164.8)
Net cash from financing activities	(636.1)	(371.8)
Net increase in cash and cash equivalents	1.1	140.4
Opening cash and cash equivalents	270.7	130.9
Effect of exchange rate fluctuations on cash held	0.9	(0.6)
Closing cash and cash equivalents (Note 31)	272.7	270.7